

## FY 2022 BUDGET GUIDELINES

### TRAVIS COUNTY VISION, MISSION STATEMENT, GUIDING PRINCIPLES, AND GOALS

#### **Vision:**

Travis County leads in innovation as a thriving community, embracing diverse cultural heritage(s), and preserving natural resources.

#### **Mission Statement:**

Provide effective, efficient, and equitable Justice, Health, Safety, and Valued Community Services to improve the quality of life for the people of Travis County.

#### **Guiding Principles:**

- Inclusiveness, Equity, Fairness, Accountability, and Respect
- Financial and Environmental Sustainability
- Operational Excellence and Transparency
- Leaders in Innovation

#### **Goals:**

- Promote community resilience in daily living and in times of emergency
- Promote the well-being of our residents through social, economic, and health and safety initiatives
- Ensure the public safety and the equitable and humane resolution of conflicts through an evolving justice system and other public processes
- Preserve and protect our environment and natural resources through responsible land stewardship
- Empower the public through civic engagement and collaboration
- Foster transportation mobility and accessibility

## INTRODUCTION

The Budget Guidelines serve as the foundation to the Preliminary Budget and set the framework for the entire budget process. Travis County's FY 2022 budget will be developed in the shadow of the impact from COVID-19 pandemic as well as the continued weight of Senate Bill 2 (SB 2) and, more recently, the February winter storms. SB 2 reduced the cap on the tax rate increase that the Commissioners Court can consider without voter approval to no more than 3.5 percent. This limitation on local control requires us to think creatively and strategically as we ensure the service needs of our residents are met in this new fiscal environment.

Budget guidelines are approved each year by the Commissioners Court to accomplish three critical objectives:

- Provide an overall framework for the budget process.
- Set expectations regarding the impact of economic and financial conditions on the annual budget; and
- Provide specific direction to offices and departments in the formulation of their budget submissions.

Furthermore, these guideline discussions provide the Commissioners Court an opportunity to prioritize issues on the horizon that may require additional funding or internal reallocations of existing funds for the next fiscal year.

Travis County delivers a wide variety of services and programs which focus primarily on the judicial system, health, emergency and social services, law enforcement and corrections, and the maintenance of the county road system. The Commissioners Court is committed to supporting efficiencies and ensuring effective outcomes for these programs so that scarce resources are allocated in ways that best benefit the community. Each year, Travis County develops a budget that supports its core mandated services and promotes resiliency and sustainability.

Performance data is invaluable to the County's resiliency efforts because it informs decision makers on maximizing the effective use of tax dollars. It also informs the public about progress the County is making towards achieving countywide, departmental, and programmatic goals. Continued efforts to improve strategic planning and performance measure data will increase the quality and use of the County's SAP Budget and Planning module (SBP), enhancing program performance transparency.

The success of the budget process is dependent on close collaboration among all stakeholders. The Planning and Budget Office (PBO) is charged with working with all County offices and departments to find the appropriate balance between managing limited available resources and the funding required to efficiently and effectively execute the services provided for Travis County residents.

## ECONOMIC OUTLOOK

The local and national economy was in a sustained period of prosperity until early 2020 and the onset of the coronavirus (COVID-19) outbreak. Business closures, shelter-at-home policies, and other social distancing behavior practiced by government entities, businesses, and individuals to stem the spread of the virus contributed to an economic downturn that ended a historic trend of healthy job growth and historically low unemployment. The information that follows is based on economic indicators for the national, state, and local levels available at the time the FY 2022 Budget Manual was developed.

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### ON THE NATIONAL FRONT

In its December 2020 Economic Outlook, the Organization for Economic Co-operation and Development (OECD) noted that the response to COVID-19 including health policies, vaccinations, and fiscal aid from governments is expected to lift global GDP in 2021. OECD predicts that the recovery will be greatest among countries that have the virus under better control, but many countries will still be below 2019 output levels and below projections made before the pandemic. Much of the speed of recovery depends on the speed of vaccine distribution, and OECD estimates that delays could weaken the economic outlook.

According to the Bureau of Economic Analysis (BEA), real GDP for the U.S. increased by an annualized rate of 33.4 percent in the third quarter of 2020 up from a projected 31.4 percent decrease estimated in the second quarter of 2020. The improving GDP rate reflects the impact of lifting pandemic restrictions on businesses and activities and of households and businesses receiving government fiscal assistance. This is an increase compared to the growth rate of 2.6 percent in the third quarter of 2019.

In October, Randal K. Quarles, Vice Chair of the Federal Reserve System, noted that the pandemic precipitated the most abrupt decline in U.S. and global economic activity in recorded history, and praised the banking system for its resiliency and the policy efforts that were able to swiftly calm financial markets. As of December 2020, and after two previous cuts in March, the Federal Reserve has left the interest rate unchanged. They maintain a target rate range of 0 to 0.25 percent. The Federal Reserve predicts no fluctuations in rates until 2023 due to the continued uncertainties associated with the pandemic.

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## THE TEXAS ECONOMY

The COVID-19 pandemic continues to present challenges to the Texas economy. The first Texas COVID-19 case was reported in March 2020 as Texas was already battling a downturn in the economy in the oil and gas sector. These combined events resulted in unprecedented economic turmoil where the unemployment rate, Texas GDP, and real estate activity all reached historic lows. State and local leaders have taken steps to address the public health emergency, and recent data shows that the Texas economy is in a period of economic recovery even though COVID-19 cases in the state continue to trend upward.

Subsequent “stay-at-home” orders issued in response to COVID-19 had a negative impact on the state’s real GDP, but the state has seen recent indicators of economic recovery due to the lifting of restrictions on businesses and activities. The U.S. Bureau of Economic Analysis (BEA) reported that real GDP increased by an annualized, seasonally adjusted rate of 29.7 percent in the third quarter of 2020 up from a projected 29 percent decrease estimated in the second quarter of 2020. For reference, the compound annual growth rate between the third quarter of 2019 and the third quarter of 2020 decreased by 3.4 percent. BEA reported Texas’ real GDP increased by an annualized, seasonally adjusted rate in the third quarter of 2019 at 4.8 percent.

Many industries were forced to halt business as COVID-19 presented challenges to ensure a safe environment. This step to limit the spread of COVID-19 resulted in unprecedented job loss with nearly 3.6 million Texans having filed for unemployment relief between mid-March and September 2020, as reported by The Texas Tribune. Texas’ 45-month consecutive job growth came to a halt in March 2020, with the 12-month percentage job growth change from February 2020 to March 2020 being only 1.7 percent. In April 2020, the U.S. Bureau of Labor Statistics reported the unemployment rate at 13.5 percent for Texas, surpassing the State’s previous record for highest unemployment rate of 9.2 percent in November 1986 due to an oil bust. The April 2020 rate was a non-annualized increase of 10 percent from April 2019, when the unemployment rate was 3.5 percent.

The U.S. Bureau of Labor Statistics reported the unemployment rate for November 2020 at 8.1 percent, an increase of 1.2 percent from July 2020’s 6.9 percent unemployment rate and a 0.2 percent decrease from June’s 8.3 percent rate.

The Federal Reserve Bank of Dallas reported Texas job growth slowed in September and estimated a weak first quarter in 2021, noting that projections and forecasts remain uncertain as COVID-19 continues to present fiscal challenges. According to the Texas Employment Forecast, 680,800 jobs will be lost in Texas this year. However, the Federal Reserve Bank of Dallas expects job growth to increase as vaccines are more widely available.

Texas continues to make strides despite current financial circumstances. Chief Executive Magazine named Texas the “Best State for Business” for the 16th year in a row based on its survey of CEOs, noting the state’s extremely business-friendly characteristics and policies. Texas has also produced the most exports of any state every year since 2002 and accounted for 20.1 percent of U.S. goods exports in 2019, according to Census Bureau data. In 2019, Texas exports were valued at over \$330 billion.

The Real Estate Center at Texas A&M states that Texas’ economy and the oil industry are gradually recovering from the impacts of COVID-19. Texas remains the top U.S. producer of both crude oil and natural gas. The state accounted for 41 percent of the nation’s crude oil production and 25 percent of its marketed natural gas production in 2019 according to the U.S. Energy Information Administration. The demand for oil has significantly decreased due to lower rates of commuting and traveling because of the pandemic. On April 20, 2020, the price for one barrel of West Texas Intermediate crude dropped to -\$37.63 a barrel, forcing producers to pay buyers to take crude off their hands as

reported by The Texas Tribune. As of October 9, 2020, the price for one barrel of West Texas Intermediate crude is \$40.60, which shows signs of recovery for the oil and gas industry.

The Census Bureau estimates Texas' population has grown 15.3 percent from April 2010 to July 2019, making it the second-fastest-growing state. Despite the economic impact of COVID-19, the number of housing sales in October 2020 was 36,531, representing a 23.9 percent increase from the number of housing sales in October 2019, due to historically low interest rates and a steady demand as reported by the Texas Real Estate Center. The median home price in November 2020 in Texas was valued at \$269,000, a year-over-year growth rate of 12.5 percent.

Texas Comptroller Glenn Hegar's biennial revenue estimate, published in January 2021 prior to the legislative session, estimated a negative beginning fund balance of \$0.95 billion for the 2022-2023 state budget due to shortfalls in revenue collection related to the pandemic. The Legislature will need to pass a supplemental appropriations bill to address the shortfall which affects the remainder of FY 2021 budgeted expenditures. Additionally, the Comptroller estimated total revenue available for spending to be \$112.53 billion for the 2022-2023 budget, down from the \$119.58 billion estimated to be available at the time the 2020-2021 budget was passed.

After the 2021 census, Texas is projected to gain three Congressional seats, and the state anticipates substantial job growth and increased political influence in lieu of the reapportionment of Congressional seats. This gain is a result of an expanding populous. This increase will give Texas greater influence in the political and economic sector.

In February a major winter storm hit many states across the country spreading snowfall, ice, and freezing temperatures. Texas was particularly impacted as millions were left without power and water amid freezing temperatures for the better part of a week. Governor Abbott issued a disaster declaration for all 254 counties on February 18th, and on February 20th, the White House issued a major disaster declaration including approval for individual assistance for 77 Texas counties and public assistance for all 254 counties. On February 22, an additional 31 counties were approved for individual assistance. Per the Texas Tribune, state agencies reported spending an additional \$41 million on the storm with local governments reportedly spending \$49 million. These numbers include only the fraction of local governments who reported their spending. The Perryman Group, a Texas-based economic research firm, projects that the winter storm could end up costing state and local governments anywhere from \$195 billion to \$295 billion. Governor Abbott added the winterization of Texas' power system as an emergency item in the state's 87th Legislative Session.

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## THE TRAVIS COUNTY ECONOMY

Prior to the COVID-19 public health crisis the Travis County economy continued to grow at a rapid pace. According to the American Community Survey, the total population of the County grew from 1.25 million in 2018 to 1.27 million in 2019, an approximately 2.0 percent growth rate. According to the Bureau of Labor Statistics (BLS) the average weekly wage for residents increased by 4.9 percent with the annual wage increasing from \$67,924 in 2018 to \$71,284 in 2019. Total median household income for the County increased from \$76,392 to \$80,726, approximately a 5.7 percent growth rate, while median housing costs increased by only 1.4 percent over the same period. Among households that own their homes, median income increased by 2.3 percent from \$111,310 to \$113,913 while housing costs only increased by 0.78 percent. However, renters saw substantial improvement in their incomes over the same period, with the median income of renting households increasing from \$51,943 to \$57,220, or approximately 10.2 percent, while housing costs increased by only 1.9 percent. According to data from the Real Estate Center at Texas A&M University (REC), housing sales within Travis County increased by approximately 4 percent over the same period while the median price of sales increased from \$346,000 to \$361,500 (a 4.5 percent change).

Although most economic data for localities arrives on a one- to two-year lag, early indicators point to a substantial contraction in the Travis County economy for 2020 due to the COVID-19 pandemic. According to the Bureau of Labor Statistics, the unemployment rate in the County increased from 2.6 percent in February 2020 to a high of 12.4 percent in April 2020 as state and local officials issued “stay-at-home” orders, effectively shutting down the economy due to the pandemic. As of November 2020, the unemployment rate had receded to 5.9 percent, below the 8.1 percent reported for the state of Texas. Data for November 2020 on non-farm wage and salary employment by major industry reported by the BLS points out those industries continuing to be most affected by the pandemic: the two industries with employment that declined the most year-over-year were Information (11.3 percent decline) and Leisure and Hospitality (20.6 percent decline).

The housing market in Travis County was also affected by the pandemic. According to the REC, housing sales in April and May, which are typically high, saw year-over-year declines of 28 percent and 36 percent. November and December, by contrast, have seen an unusually high number of sales: November sales increased by 25 percent year-over-year while December sales increased by 18 percent. The median sale price of homes also increased substantially by 20 percent year-over-year to \$435,000 as of December 2020. The number of months of housing inventory, an indicator for how long the current for-sale inventory would last given the current sales rate if no additional new homes were built, currently stands at 0.6 months – the lowest number since the REC began reporting the indicator in 2015.

Wells Fargo Securities notes that Austin is in a position for steady growth in 2021 despite the effects of the pandemic. The Austin area has evolved into a technology hub and is continuing to attract more technology-based employers, among other fields. According to Forbes, future projections show growth in technology careers, particularly in the Austin area. Apple currently has more than 6,000 employees in Austin and Google is expanding throughout the greater Austin area.

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## COVID-19 RESPONSE

In the Spring of 2020, the County began to actively respond to the COVID-19 global pandemic. The Commissioners Court focused on public safety through increased safety precautions, deep cleanings, and the distribution of Personal Protective Equipment (PPE). Telework was deployed where possible while frontline employees continued serving the community. The Planning and Budget Office has delivered frequent updates on the budget and revenue impacts from the COVID19 pandemic to Commissioners Court during the development of the FY 2021 budget. The County assessed the impact of various stay at home orders and economic shocks on the County’s financial health. In addition, the Commissioners Court acted quickly to safeguard financial flexibility in light of the uncertainty of the pandemic’s immediate and expected longer-term impact. On April 14, 2020 the Commissioners Court approved a hiring freeze, which halted personnel actions for Commissioners Court departments and a voluntary freeze for elected and appointed officials. Late in the budget process, the hiring freeze was approved to continue into FY 2021 with an expiration at the end of December.

The County also reduced operating and capital expenses. Offices and departments were asked to review expected expenditures and reduce expenditures where they were able to do so responsibly. In addition, offices and departments were asked to delay larger operating and capital projects if the delay would not impact the County’s ability to meet mandated requirements. Furthermore, the County optimized the FY 2020 debt issuance based on project needs allowing us to reserve \$35 million in cash for FY 2021 in order to assist with potential revenue uncertainty. These funds will be used to offset future debt issuances if they are not needed for County operations due to revenue shortfalls stemming from COVID.

In the summer of 2020, the Commissioners Court provided direction to calculate the tax rate in the manner of a special taxing unit for FY 2021, which in turn will preserve the Commissioners Court's tax rate flexibility for the FY 2022 budget process. This flexibility may be needed given the continued impact of the COVID-19 pandemic and the winter storms of 2021.

#### COVID-19 RELIEF FUNDING

Travis County received \$61.1 million of Coronavirus Relief Fund (CRF) funding created under the CARES Act of 2020. The County secured, monitored, and allocated the funding while also hiring a consultant to assist with the strategic allocation of funds. This funding was used to help support small cities within Travis County, provide allocations to small businesses through TCTX Thrive, provide rent and mortgage assistance, food distribution and other social services, fund an interlocal agreement with the City of Austin for joint response efforts, and support County direct response costs. These federal resources were fully spent or encumbered by December 30, 2020. Travis County has also pursued several other grants as well as reimbursements from the Federal Emergency Management Agency (FEMA) to help mitigate the cost of the County's response. In addition, the County was awarded multiple grants to assist in the cost of the November 2020 election.

Table 1  
Travis County CRF Allocations

Program as of January 22, 2021	Budget
County Direct Response	\$ 25,672,240
County Joint Response	7,425,242
HHS COVID Outreach	200,000
HHS Food Distribution	1,518,400
HHS Rent and Mortgage	5,500,000
HHS Workforce Development / Child Care	2,240,000
Small Cities	6,090,862
TCTX Serve	2,500,763
TCTX Thrive	10,000,000
Total	\$ 61,147,507

On January 21, 2021, Travis County received an additional \$10.6 million of CRF funding as part of the additional funding for Coronavirus relief that Congress passed on December 21, 2020 in the Consolidated Appropriations Act, 2021. The funding is for emergency rental assistance for eligible households as part of the federal Emergency Rental Assistance Program, and the County is currently evaluating the best plan for distributing these funds. On March 10, 2021 the U.S. Congress passed the American Recovery Plan Act of 2021 that includes the Local Coronavirus Fiscal Recovery Funds. As part of this Act the County expects to receive funding for use in responding to the COVID-19 pandemic or the economic downturn caused by it, including revenue replacement. The County is currently evaluating the best plan for the use of these funds which must be used prior to the end of 2024.

#### VACCINE DISTRIBUTION

In December 2020, the Moderna and Pfizer COVID-19 Vaccines received an Emergency Use Authorization from the U.S. Food and Drug Administration and the Johnson & Johnson one dose vaccine was approved in late February 2021. The United States has ordered some 400 million doses of vaccines in total with staggered arrival dates through July 2021. Texas continues to receive doses of the vaccines and distribute them to hospitals, pharmacies, local health

departments, freestanding emergency rooms, and other clinics throughout the state to distribute to the community in a phased approach prioritizing health care workers, teachers and childcare workers, individuals over 50, and people with certain chronic medical conditions.

In mid-February 2021, in response to a letter of request signed by Judge Andy Brown and the County Judges of Bastrop, Caldwell, and Hays Counties, along with the CEO's of Ascension Seton and CommUnity Care Health Centers, the State of Texas, via the Department of State Health Services and the Division of Emergency Management, allocated Ascension Seton 3,000 first-doses of vaccine to kick-start the plan for a drive-thru mass-vaccination site at Circuit of The Americas. The success of the first drive-thru event on February 27th resulted in another 10,000-dose allocation in early March. With approval of the new Johnson & Johnson single-dose vaccine, along with announced efforts to ramp up production of other approved vaccines, it is anticipated that Travis County will continue these vaccination efforts, in addition to work being done by the City of Austin, in the near future.

#### LEGISLATIVE UPDATE AND FINANCIAL CONSIDERATIONS

One of the biggest factors impacting the development of the FY 2021 budget, outside of the onset of the pandemic, was SB 2, approved in the 86th Legislature in 2019. SB 2 took effect in 2020 and will limit the County's flexibility to raise revenue and best respond to community needs. This law will challenge the County to plan more strategically for future budget years to continue to provide essential, desired services.

The bill generally prohibits counties from raising the maintenance and operations (M&O) above a rate yielding 3.5 percent more revenue than in the year prior starting in 2020, excluding revenue from new construction, unless the voters approve the tax rate in a referendum. However, Section 26.04 (c-1) of the Tax Code authorizes the governing bodies, such as Travis County, which is not a special taxing unit, to direct the designated officer to calculate the voter approval tax rate of Travis County in the manner provided for a special taxing unit if the governor of Texas or the president of the United States declares that any part of the County of Travis is a disaster area during the current tax year.

On March 13, 2020, after the Centers for Disease Control affirmed COVID-19 as a global pandemic, President Donald Trump declared a nationwide emergency pursuant to section 501 (b) of the Stafford Act, and Governor Greg Abbott declared the COVID-19 pandemic as a disaster in the State of Texas. The voter-approval tax rate for a special taxing unit is 8 percent, which was the same limit Travis County was under for more than 30 years prior to SB 2. Local governments may seek to tax above the 3.5 percent as a part of this provision as a result of the impact of COVID-19.

Texas' 87th Legislature's Regular Session began on January 12, 2021. The Texas House elected Representative Dade Phelan as the new Speaker of the House. Governor Abbott originally outlined five emergency items for the legislative session including expanding broadband internet access, discouraging local governments from defunding police, reforming the bail system, ensuring election integrity, and providing civil liability protection for business operating in the pandemic. In response to the state experiencing a winter storm natural disaster that heavily impacted the state's power system, the Governor added an additional emergency item to fund the winterization of the state's power system. Lieutenant Governor Dan Patrick announced bills that he considers priorities this session as well, many of which echo Governor Abbot's priorities around power grid stability, statewide broadband access, pandemic liability protection for businesses, election security, the bail system, and funding for police. Additionally, he identified a bill that would ban taxpayer funded lobbying which would impact the work of the County's Intergovernmental Relations Office (IGR).

The Travis County IGR staff provided Commissioners Court with a legislative update in advance of the legislative session. Due to revenue shortfalls, the State may reduce grants to local governments specifically in the areas of



criminal justice, indigent defense, and mental health services. Additionally, Commissioners Court approved, the prioritized monitoring and opposing of legislation that would create or expand unfunded mandates for counties and legislation that may further artificially cap county revenue sources and supporting legislation that would provide flexibility in the homestead exemption, allow local governments to accept bids in electronic form only, and remove requirements for balanced billing on STAR Flight services. A number of bills artificially capping county revenue sources and bills that provide homestead exemption have already been filed. PBO is providing analysis and recommendations on these and other bills, and will continue to monitor them should they move through the 87th Legislature as Travis County prepares for the FY 2022 budget process.

## FY 2022 BUDGET CONSIDERATIONS

The Budget Guidelines include known budget considerations that will need to be addressed during the FY 2022 budget process as well as estimated impacts expected in the next three to five years. Planning parameters also need to account for the increased uncertainty brought by the pandemic, and the restrictions placed on Travis County as a result of SB 2. Protection against increased uncertainty has been included in the FY 2021 Adopted Budget and will be considered thoughtfully in the FY 2022 budget process through the strategic use of healthy reserves.

To better position the County in future years in light of these challenges, the County is again in the early stages of embarking on a large-scale strategic planning effort. These efforts were paused in 2020 in the midst of the COVID-19 pandemic and its impact on County operations and finances. A robust strategic plan with community input will assist the County in prioritizing resources in the long-term.

For the FY 2022 budget process, estimates of known budget drivers are identified and included in this document. These cost drivers and other budget priorities are discussed below and must be weighed seriously by the Commissioners Court early in the process in order to provide clear direction to PBO in the formulation of the Preliminary Budget.

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## DEPARTMENTAL TARGET BUDGETS

The FY 2022 Target Budget represents the FY 2021 Adopted Budget plus the annualized impact of any new increases approved during FY 2021, less any one-time expenses and other reductions related to pilot programs and programs that have been moved from ongoing to one-time, plus any needed corrections. The current Target Budget amount for FY 2022 is \$715.2 million (including \$678.4 million in departmental base budgets) and represents initial requirements to continue approved programs in offices and departments for the next fiscal year at current service levels. This number includes ongoing funding built into reserves and capital budgets that allows the Commissioners Court the flexibility to make long-term decisions midyear and issue less future debt by cash funding recurring capital needs.

PBO reviews departmental base budgets annually during the budget process. This process involves working with departments to identify flexibility within their budgets to better accomplish their goals and missions. This analysis oftentimes results in recommendations from PBO for offices and departments to internally fund budget requests that the department has requested to be funded with new tax dollars.

As previously noted, revenue cap legislation will impact future budgetary flexibility. Therefore, PBO has proposed additional, partnered review of departmental budgets. This partnered review was intended to begin in the FY 2021 budget process with the development of a template for the Planning and Budget Office. The COVID-19 pandemic delayed that review. However, it is our intent to develop this template this year. Once a template is developed, PBO can work with departments to examine how best to present information to Commissioners Court. As stated last



year, this review would not be a performance audit but would instead be a more in-depth review of a department's structure, including mandated and discretionary programs and past budget patterns, in order to provide the Commissioners Court with a fuller view of how resources are spent within the office or department.

#### AVERAGE DAILY POPULATION

The single largest expense of the annual budget is operating the County's jail. The County has focused on reducing the Average Daily Population (ADP) in the Travis County Jail through diversion and other justice programs. Programs throughout the justice system have successfully reduced the jail population over time resulting in the need for less County staff to operate these facilities under state required staffing ratios.

The adult system ADP for February 2021 was 1,742, which is 491 less (22.0 percent) than February 2020 and 512 less (22.7 percent) than February 2019.

Table 2  
Travis County Adult Inmate Population Comparisons for February 2019 to 2021

Monthly Average	ADP	# Change from FY21	% Change from FY21
2021 February Avg	1,742	N/A	N/A
2020 February Avg	2,233	-491	-22.0%
2019 February Avg	2,254	-512	-22.7%

The average population in the Juvenile Probation Department, including the Residential and Detention programs, has decreased year over year, as seen in the following table.

Table 3  
Travis County Juvenile Average Daily Population for Residential and Detention Programs for February 2019 to 2021

Monthly Average	ADP	# Change from FY21	% Change from FY21
2021 February Avg	67	N/A	N/A
2020 February Avg	59	8	13.6%
2019 February Avg	86	-19	-22.1%

Based on the reduced population figures for adults and juveniles in Travis County's custody, the FY 2021 Adopted Budget included related reductions of \$2,795,624 and 41 FTEs. More specifically, the Sheriff's Office budget was reduced by \$2,269,921 and 33 FTEs and the Juvenile Probation Department's budget was reduced \$525,703 and eight FTEs. These savings based on lower staffing requirements since there were less adults and juveniles in our custody. These reductions were used to help balance the FY 2021 Adopted Budget, which had significantly less new ongoing resources as a result of the impact of COVID-19.

It should be noted that similar reductions to the budget and FTEs for these departments were made in the FY 2020 Adopted Budget. A portion of the reductions taken in FY 2020, \$1,929,604, were held in a special purpose reserve for FY 2020 so that positions could be restored if these populations increased. This reserve was reduced to \$929,604 in the FY 2021 Adopted Budget due to the continued reductions to the adult and juvenile populations and the assumption that this trend would continue and result in less of need to maintain the reserve at this level in the event resources were needed to add back for state required staffing ratios.

To facilitate a safe environment during the COVID-19 pandemic, the Sheriff's Office opened residential units that normally would not be in use with a low ADP. These units assisted in necessary isolation and quarantine efforts and

may make it difficult for additional staffing reductions to occur if these health and safety protocols remain in place. PBO will continue to monitor the ADP and staffing levels and adjust the budget and FTEs as needed when conditions allow.

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## MAINTENANCE AND OPERATIONS BUDGET DRIVERS

Estimated budget drivers have been consolidated into the table below. These budget categories are discussed in greater detail in the next section. Budget drivers such as these generally represent projected FY 2022 expenditures that, unless other direction by Commissioners Court is provided, will require additional funds to be made available either through significant reallocations of existing County resources or by the addition of new ongoing resources.

Table 4  
FY 2022 Preliminary Cost Drivers

<i>Category</i>	Preliminary Estimate
<b>Target Budgets in Millions</b>	<b>\$715.2</b>
<i>Workforce Investments &amp; Countywide Budget Drivers</i>	
Compensation & Benefits	15.9
Interlocal Agreements	1.6
BCP Transfer & Waller Creek TIF	2.0
<b>Subtotal Workforce Investment &amp; Countywide Budget Drivers</b>	<b>\$19.5</b>
<i>Program Specific Budget Drivers</i>	
TIDC Public Defender Office Grant Match/Indigent Attorney Fees/Justice Related	4.8
General Maintenance of Current Effort (MCE)	4.5
Tech-related Maintenance of Current Effort (MCE)	2.8
Pilot Projects	0.6
<b>Subtotal Program Specific Budget Drivers</b>	<b>\$12.7</b>
<b>Total</b>	<b>\$747.4</b>
<b>Preliminary Estimated Increase</b>	<b>\$32.2</b>

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## WORKFORCE INVESTMENTS AND COUNTYWIDE BUDGET DRIVERS

### COMPENSATION & BENEFITS

#### *COMPENSATION*

The Travis County Commissioners Court prioritizes its employees in recognition that they execute the County's Vision, Mission, and Goals. Travis County has a compensation philosophy that emphasizes the importance of recruitment, motivation, and retention of quality employees that are capable of providing exemplary service for the residents of Travis County. This goal is achieved by using a total compensation system that is fair, flexible, and market competitive. While compensation encompasses much more than direct wages, the guidelines will address funding for potential salary increases. The following table summarizes employee salary standard compensation increases since FY 2017.

Table 5  
History of Employee Salary Compensation, FY 2017 – FY 2021

<i>Employee Type</i>	<i>FY 2017</i>	<i>FY 2018</i>	<i>FY 2019</i>	<i>FY 2020</i>	<i>FY 2021</i>
Classified (Standard Increases)	2.5% across the board increase	2.0% across the board increase <sup>1</sup>	2.5% across the board increase <sup>2</sup>	3.0% targeted increase <sup>3</sup>	2.0% across the board increase <sup>4</sup>
Classified (Other)	1st year of Benchmark Study;	2nd year of Benchmark Study; Compression	3rd year of Benchmark Study; Compression	Full Market Salary Survey; \$15 County Minimum Wage & Compression	N/A
Peace Officer Pay Scale (POPS)	One Step Increase	One Step Increase	One Step Increase; 2% Scale Increase	One Step Increase	One Step Increase

1 The County's living wage was increased to \$13 per hour for regular employees and non-seasonal temporary employees.

2 Ongoing salary increase for regular classified employees who were hired as of April 1, 2017. Minimum increase for regular fulltime employees is \$1,200.

3 Ongoing salary increase for regular classified employees who were hired as of April 1, 2019 and did not receive at least a 3% salary increase from the Market Salary Survey, \$15 County Minimum Wage & Compression adjustments.

4 Ongoing salary increase for regular classified employees who were hired as of March 31, 2020.

Classified Employees: The Compensation Committee is charged with making recommendations to the Commissioners Court about compensation-related matters for the upcoming fiscal year. Per County Code §114.043, each year during January, the Chair of the Compensation Committee reconvenes the Compensation Committee and then reports their recommendation to the Commissioners Court. The Compensation Committee prioritized funding the Benchmark Study in FY 2022. The Committee noted that funding for the Benchmark Study in successive years should also be a priority of the Commissioners Court and failure to fully fund the studies will have a significant negative impact on employee compensation equity, especially because the FY 2020 Benchmark Study was not funded.

The Human Resources Department (HRMD) will be working on the Benchmark Study through the spring and will discuss it as well as any other workforce efforts with the Commissioners Court in May 2021.

Peace Officer Pay Scale (POPS) Employees: These employees are on a step scale with progression through the scale based on steady, incremental movements from one step to the next in years when this type of increase is approved by Commissioners Court. The Commissioners Court has directed staff to complete a review of the structure of the pay scale and a review of market considerations. A working group of stakeholders is developing recommendations that will be presented later in the budget process. The budget drivers presented for compensation provide sufficient flexibility to fund one step increase for employees on the Peace Officer Pay Scale, based on past practice, resources, and the working group's preliminary discussions on structural changes to the scale. The cost of these recommendations will be further refined with feedback from the working group and the Commissioners Court. The POPS pay scale was last increased in FY 2019 by 2.0 percent.

Finally, funding for the third year of the Elected Officials Market Salary Survey is included in the FY 2022 Cost Drivers for planning purposes, with the understanding that additional direction is needed from the Commissioners Court

regarding any proposed changes to elected official's salaries for FY 2022. The Elected Officials Market Salary Survey was last funded in FY 2020.

FY 2023-2025 Considerations: Employee Compensation is typically the County's largest cost driver. Each fiscal year compensation is included in the cost drivers in order to account for these expenses as early in the budget process as possible. Due to the constraints of SB 2, the County's financial flexibility is diminished, and this effort will become more difficult in future years. The Commissioners Court has a clear commitment to its workforce and ensuring fair and reasonable total compensation. This approach includes not only cash compensation, but also health insurance, life insurance, retirement annuity, vacation leave, sick leave, personal leave, free parking, holidays and elements of work/life balance (when comparable and measurable), and employee mobility.

## **BENEFITS**

### **1. HEALTH BENEFITS**

Travis County has a self-insured health benefits plan. Under a self-insured program, the actual insurance claims made by employees are paid directly from County resources with an insurance carrier hired to administer claims processing (i.e., a third-party administrator). The benefits of being self-insured are flexibility with providing standards of care for employees and more control over increasing health premiums for the County. Despite this added control, a self-insured plan does not necessarily reduce exposure to overall health care increases. The Commissioners Court determines the plan funding and benefit structure on an annual basis based on recommendations from the Employee Benefits Committee and after an employee public hearing.

Reliable cost estimates for benefits in the upcoming fiscal year are not known until the budget process is underway. However, it is important to provide an estimate for these guidelines and the best way to formulate this estimate is based on historic increases experienced by the County in recent years. A summary of the most recent five-year period is shown in the following table.

**Table 6**  
**Increases in County's Rate Contribution to Employee Health Plan FY 2017 to FY 2021**

<i>Fiscal Year</i>	<i>Original Actuary Estimate</i>	<i>Final Budget Increase after Plan Design Changes</i>
2017	6.4%	4.0%
2018	11.2%	4.9%
2019	3.4%	0.0%
2020	3.1%	2.1%
2021	1.9%	0.0%

For FY 2022, PBO recommends planning for an estimated 2 percent increase in the health plan contributions plus consideration of eligible new retirees projected to be added to the plan. The estimate used for FY 2022 is based on a 2 percent increase, which is roughly the five-year compounded annual growth rate (CAGR). The table above also demonstrates that plan design changes, prepared early in the year by the Benefits Committee, generally assist in reducing the original anticipated impact. Such changes also further refine the plan to ensure that the long-term costs are more sustainable to the County and plan participants.

FY 2023-2025 Considerations: HRMD, the benefits consultant, and the Employee Benefits Committee will continue to work to improve the plan to provide better health care coverage and control costs. A strategic plan for maintaining a comprehensive benefit plan for County employees, retirees, and covered dependents will be developed that

considers long-term cost increases as well as the overall stability of the plans. PBO will assist in exploring tenure-based contributions for retiree health care by utilizing the earmarked funds in the Allocated Reserve. The development of key performance metrics related to Travis County Health Clinics will also be examined, including a review of utilization, employee outreach, and effective marketing efforts for the Travis County Health Clinics.

## 2. RETIREMENT

Travis County is one of the more than 735 employers that participate in the Texas County and District Retirement System (TCDRS). The County has a defined benefit plan that is savings based. That is, retirement benefits are based on how much an individual retiree saved during his or her active employment and the employer's matching rate of 225 percent at retirement. This makes the cost to pay for these benefits, as well as the benefit itself, more predictable than other retirement plans.

As members of TCDRS, Travis County employees contribute to the retirement system at actuarially determined rates. County employees contribute 7 percent of their salary (the highest allowed by TCDRS) to the County retirement plan, as set by Commissioners Court.

TCDRS notified Travis County that the County's required contribution rate for FY 2021 is 16.08 percent of salaries. However, the FY 2021 Adopted Budget maintains the 16.19 percent of salaries which is slightly above (less than 1.0 percent) the required rate to prepare for potential increases in future budget years and safeguard the County's funded ratio. TCDRS will inform the County of the new required contribution rate during the FY 2022 budget process, likely in May. The FY 2022 estimate included in the planning parameters assumes a 3.31 percent increase based on the ten-year CAGR. The table below provides a brief history of the required contribution rate and the rate increases in the County's contribution to the Retirement Plan.

Table 7  
County's Retirement Rate Contribution History, FY 2017 – FY 2021

<i>Fiscal Year</i>	<i>Contribution Rate</i>	<i>Retiree COLA Awarded</i>	<i>Funded Ratio</i>	<i>Rate Increase</i>
2017	14.32%	-	83.26%	4.75%
2018	14.91%	-	86.31%	4.12%
2019	15.34%	50% CPI	86.98%	2.88%
2020	16.19%	-	85.66%	5.54%
2021	16.19%	-	86.50%	0.0%

FY 2023-2025 Considerations: TCDRS gives employers various suggestions to keep rates stable, including adopting a rate higher than the required rate, adjusting plan benefits, and paying extra lump sums for cost of living adjustments (COLAs) when implementing. These suggestions and other tools should be given the same amount of review and consideration as the County gives compensation and health benefits, especially as the number of retirees grows over the next decade.

It will be important to continue strengthening our plan through our funded ratio based on contributions from the County and anticipated retiree annuities. The County's informal goal is to work towards a funded ratio of 90 percent in the near future.

Employee Public Hearing: Commissioners Court will hold an employee public hearing on employee-related issues and invites all County employees, employee groups, and retirees to give the Commissioners Court feedback for

consideration for the FY 2022 budget. The hearing date will be on Thursday, May 27, 2021. HRMD will send out a notice to all employees in advance of the hearing.

#### INTERLOCAL AND OTHER AGREEMENTS

The County has interlocal agreements (ILA) with the City of Austin and several other state and local partners to provide needed public services. These interlocal agreements include: Public Health and Animal Control Services, Emergency Medical Services, Emergency and Communications Center (CTECC), the Regional Radio System, Hazardous Material Mitigation, Transit Services, and the Central Booking Interlocal Agreement.

Through the Public Health Interlocal Agreement, the City of Austin Public Health Department provides epidemiology, vital records, environmental health services, disease surveillance, chronic disease and injury prevention, health promotion services, and social service contracts targeted specifically to subpopulations of the County experiencing an undue burden of morbidity and mortality throughout the City of Austin and Travis County. The City of Austin Animal Services Department enforces regulations, provides shelter for lost or homeless animals, implements wildlife management strategies, and works to achieve live outcomes for sheltered pets under the Animal Control Services Interlocal Agreement. The Travis County portion of the Public Health and Animal Control Services Interlocal Agreements is based on a cost-sharing formula driven by the percentage of Travis County residents in the unincorporated area.

As part of Travis County's response to the ongoing COVID-19 public health crisis, Travis County entered into a new interlocal agreement with the City of Austin to share the cost of combating the pandemic in 2020. A total of \$7,425,242 was reimbursed to the City of Austin for costs incurred between March and December of 2020. The County and City are currently working on a new agreement to share costs in 2021. The FY 2021 budget has an emergency reserve totaling \$17,000,000 and funds may be used from this reserve to meet the County's continued response to COVID-19.

Travis County also contracts with the City of Austin for the provision of ground Emergency Medical Service and Transportation in the County. This agreement provides paramedic emergency ambulance services to Travis County excluding the City of Austin.

The Combined Transportation, Emergency & Communications Center (CTECC) and Regional Radio System (RRS) are cooperative agreements that benefit public safety and public service within the region by coordinating resources in the County as well as providing effective radio and wireless coverage for those assets across the region.

The Hazardous Materials (HAZMAT) Interlocal Agreement is a joint agreement between Travis County and the City of Austin to manage hazardous material removal throughout the county.

Through an ILA with Capital Metro, the County has a cost-sharing arrangement which is contingent on the County's inclusion in the Capital Metro regional Service Expansion Program and requires the County to complete a Transit Development Plan (TDP). Under this arrangement, the County has the opportunity to collect and leverage additional Federal Transit Administration (FTA) funding for transit services partially or wholly within the unincorporated areas of the County. These anticipated combined increases total \$1,600,000 in our initial cost drivers.

There is also a Central Booking Interlocal Agreement wherein the City of Austin contracts with the County to provide these services for the Austin Police Department. The City's contribution for this agreement is included in the County's revenue estimate.

FY 2023-2025 Considerations: Work has continued on improving the negotiation and execution of ILAs. We will continue to explore potential improvements with the County Executives and our City counterparts to ensure that these contracts are efficient and effective and fit well into our annual budget planning process. These efforts will be even more critical since the City of Austin and County will both be under the same property tax restrictions from SB 2.

#### BALCONES CANYONLANDS PRESERVE (BCP) & WALLER CREEK TRANSFERS

The BCP operates under a regional Section 10(a) permit known as the Balcones Canyonlands Conservation Plan (BCCP), which was issued to Travis County and the City of Austin in 1996 by the U.S. Fish and Wildlife Service under the Endangered Species Act. The current budgeted transfer from the General Fund to the BCP Fund is \$19,880,147. Efforts are underway to identify long-term strategies for the completion of Plan requirements as well as appropriate protection of current BCP properties. This work includes the appropriate long-term maintenance and operations budget for Travis County BCP properties. On October 9, 2019, the BCP Coordinating Committee voted to extend the permit past 2026 and to make administrative changes to update the Plan and the associated interlocal agreement with the City of Austin. The Commissioners Court approved this same approach in November of 2019.

Planning for FY 2022 includes a continuation of the freeze of the General Fund transfer at \$19.9 million. Similar to FY 2021, any additional calculated transfer amount will be reserved in the General Fund and set aside for future work required by the agreement, including permit extension and any related changes to the interlocal agreement with the City of Austin, given that this agreement prescribes the calculation methodology for the transfer. PBO will continue to work with Transportation and Natural Resources (TNR) with the objective of having a permanent recommendation in FY 2022. Any changes to the ILA for the BCP would require review through the BCP Coordinating Committee and approval by the City Council and Commissioners Court and may need to include other funding alternatives to assure that the permit is not impacted. The Commissioners Court may wish to receive an update on these efforts from TNR.

In 2008, Travis County entered into a 20-year agreement with the City of Austin for participation in the Waller Creek Tax Increment Finance Zone (TIF). As part of the 20-year agreement, Travis County contributes 50 percent of the property tax on the increase in value of real property in the reinvestment zone (tax increment) for TIF purposes. The tax increment will be used to help repay the debt that was issued by the City to build the Waller Creek Tunnel. The tunnel project consists of the construction of flood control improvements along lower Waller Creek that will provide 100-year storm event flood protection with no out-of-bank roadway flooding for the lower Waller Creek watershed. The project will reduce the width of the floodplain in the reinvestment zone area that will significantly increase the amount of developable land area in the lower Waller Creek watershed. The FY 2021 Adopted Budget included an increase of \$400,000 in the Waller Creek TIF estimated budget due to an increase in value of real property in the reinvestment zone. The total estimated County TIF contribution for fiscal year 2021 is \$2.3 million. The TIF contribution will not be finalized until certified values are received from the Travis Central Appraisal District and the County has an adopted tax rate. In the meantime, an incremental increase in funding based on historical annual increases is included in the FY 2022 planning parameters. These anticipated combined increases total \$2,000,000 in our initial cost drivers.

FY 2023-2025 Considerations: PBO will continue to work with Natural Resources staff on future planning efforts regarding the long-term maintenance of the permit with USFWS, the establishment of the BCP Visitor Center, and future land and karst acquisition in service of permit requirements.



#### TIDC PUBLIC DEFENDER OFFICE GRANT MATCH/INDIGENT ATTORNEY FEES/JUSTICE RELATED

In September 2019, the Texas Indigent Defense Commission (TIDC) awarded Travis County a state grant totaling \$20.1 million over four years to fund a countywide public defender office and for improvements to Capital Area Private Defender Services (CAPDS). The grant term began on April 1, 2020, and the County's grant contribution for FY 2022 is expected to be \$5,713,673. An additional \$3,528,271 will be included in the Annualization Reserve for additional program implementation occurring in FY 2023 to make sure funding is available for the next grant term. In FY 2022, \$350,261 of additional resources will be needed to increase the civil indigent attorney hourly rate from \$80 to \$85, a planned increase in the civil indigent attorney fee schedule. This increase will have an effective date of October 1, 2021. These rates are matched to the criminal attorney hourly pilot that is funded in the TIDC grant for the new Public Defender's Office and CAPDS improvements.

Indigent defense expenditures continue to increase annually, requiring significant new County resources. Investments in FY 2021 included an increase of \$300,000 for Civil Courts Legally Mandated Fees to align the base budget with projected expenditures. There was also a \$200,000 earmark against the Allocated Reserve for these expenses.

While there was no increase to the Criminal Courts Legally Mandated Fees budget for indigent defense expenses in FY 2021, there was a \$2,163,820 earmark against the Allocated Reserve for potential additional resources needed to address the backlog of cases due to the COVID-19 pandemic. Expenditures for the Civil Courts and Criminal Courts Legally Mandated Fees budgets will be monitored closely as information regarding the pandemic continues to develop and the need for additional resources for FY 2022 is evaluated.

Several one-time funded additions related to the closure of the Austin Police Department DNA lab will need to be re-evaluated for continued funding in the FY 2022 budget. CAPDS, the District Attorney's Office and the Juvenile Public Defender are completing their reviews and are now identifying cases that require additional scrutiny. Additional testing funds and a five-year contract with CAPDS for case review will be assessed by having further discussions with stakeholder departments on the amount of work needing to be executed in the next fiscal year. These anticipated combined increases total \$4,800,000 in our initial cost drivers.

FY 2023-2025 Considerations: The County's total grant match will be \$20.1 million over the four-year term of the TIDC grant to fund the public defender office and CAPDS improvements. By FY 2025, the Public Defender's Office and related programs will be fully implemented and completely County funded at a cost of approximately \$15 million.

#### GENERAL MAINTENANCE OF CURRENT EFFORT (MCE)

General Maintenance of Current Effort (MCE) include anticipated increases in various program areas. Information and Technology Services (ITS) will submit a request for an enterprise camera system, the addition of law enforcement body worn cameras and other patrol video upgrades. It is anticipated that the requested system will use cloud-based storage for ease of retrieval but will require ongoing operating resources. Other increases will likely include increased property insurance premiums, support for the Medical Examiner's Office and continuation of resources related impact of COVID-19 on County operations and implications of long term increased teleworking goals for applicable staff. These anticipated combined increases total \$4,500,000 in our initial cost drivers.

FY 2023-2025 Considerations: These are items that allow offices and departments to continue executing approved programs. Any increases are typically necessitated by factors such as property insurance premiums, election funding, increased contract costs, opening new facilities and legal or other requirements to maintain current operations.

#### TECH-RELATED MAINTENANCE OF CURRENT EFFORT (MCE)

PBO reviews and analyzes a variety of operating cost increase requests during the budget process and asks departments and offices to internally fund such cost escalators when possible. However, there are some larger countywide operating costs related to programs such as the replacement of the Integrated Justice System and increases to software subscriptions that require additional resources.

ITS is also working to replace current Tiburon systems in Pretrial Services, Counseling and Education Services and the Sheriff's Department in FY 2022. Tiburon systems are nearing an end of life cycle and will require replacement case management systems for these departments, continuing similar efforts to replace the systems for the Adult and Juvenile Courts case management systems. In addition, funds will likely be evaluated to enhance IT security, statutorily required compliance programs, and other network improvements. These anticipated combined increases total \$2,800,000 in our initial cost drivers.

FY 2023-2025 Considerations: IT infrastructure is moving away from on premise hardware needs to requiring user-based licenses and "cloud" based technologies. As that transition occurs, ITS may require additional ongoing operating funds rather than one-time capital costs to serve their customers.

#### OTHER COURT IDENTIFIED PRIORITIES AND PILOT PROGRAMS

The Commissioners Court may, at its discretion, identify other priorities during the development of the FY 2022 budget process that could have an impact on the budget. These anticipated combined increases total \$600,000 in our initial cost drivers.

FY 2023-2025 Considerations: Revenue cap legislation highlights the importance of the County's pilot program process to ensure scarce funding is allotted to the most effective new programs or program expansions. Departments are encouraged to take advantage of the pilot program structure to test new programs and increase their overall effectiveness and efficiency. Finally, the FY 2021 Adopted Budget included a variety of earmarks that could materialize later in this fiscal year. Some of these earmarks represent one-time expenditures; however, there are some earmarks that could materialize into ongoing commitments by the Commissioners Court that will need to be budgeted for FY 2022 and beyond.

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#### IDENTIFIED BUDGET RELATED MATTERS NOT INCLUDED IN BUDGET DRIVERS

Other known and unknown issues may directly impact the development of the FY 2022 Preliminary Budget or may require advance preparations for an impact in future budget years. PBO will work with offices and departments to continue monitoring issues that may materialize and will keep the Commissioners Court apprised of any substantive changes. Potential issues include, but are not limited to:

- Staffing needs (additional or repurposed positions) to fully meet all current workload requirements;
- Additional investments in new programs or service enhancements, including any outcomes from the strategic plan and the most recent facilities master plan;
- New unfunded/underfunded mandates;
- County response to natural disasters or other unforeseen events including COVID-19;
- Changes in assumptions that impact the calculation of the County's property tax collection rate and resulting revenue; and
- Other unexpected decreases in state or federal grant funds for established programs with proven results.

## RESERVE LEVELS

Local governmental entities maintain reserves to help mitigate unforeseen risks and to provide a source of funding should additional resources be required for essential services beyond departmental budgeted expenditures. The necessity for reserves in times of uncertainty or worsening economic conditions is heightened and provides necessary fiscal resiliency for the entity.

Travis County has four primary types of budgeted reserves: the Unallocated Reserve, the Allocated Reserve, General Purpose Reserves, and Special Purpose Reserves. Maintaining appropriate Unallocated and General Purpose Reserve levels are important components of County financial policies and management practices. Special purpose reserves can also be used to set aside funding for future contractual obligations in instances where the final contractual requirement is determined after the adoption of the budget. Special purpose reserves provide the greatest flexibility for Commissioners Court oversight and input into the programs and expenditures supported by these reserved funds.

For FY 2022, the Unallocated Reserve will be recommended by PBO at the County's Reserve and Fund Balance Policy goal of no less than 11 percent of the total budgeted operating expenses for the General Fund as defined in the CAFR. An Allocated Reserve totaling 1 percent of budgeted expenditures, excluding earmarks, will be targeted in FY 2022 and an appropriate Capital Acquisition Resources (CAR) Reserve based on staff recommendations in the Preliminary Budget will be continued in FY 2022.

The Emergency Reserve was increased in FY 2021 by \$8,500,000 to \$17,000,000 for potential one-time expenditures related to the County's COVID-19 response and related delivery of service. This reserve, which serves as a buffer for the County against any potential softening of the economy, is evaluated every year to determine if this reserve should be reduced, maintained, or increased.

In addition, a Budget Stabilization Reserve totaling \$35,377,328 was established in FY 2021 to provide cash on hand for potential revenue or expenditure challenges related to COVID-19. One-time resources of \$35,377,328 were first identified as a result of changes to the County's FY 2020 debt issuance to reserve these funds considering uncertainty surrounding the impact of COVID-19. PBO will make recommendations concerning this reserve as part of the FY 2022 Preliminary Budget.

Special Purpose Reserves will continue to be utilized as a mechanism to maintain funding for certain projects that are not executable at the time that the budget is adopted. Earmarks on the Allocated and Capital Acquisition Resources Reserves serve as signals to Commissioners Court that certain projects or initiatives may need additional resources after additional analysis or presentation to Commissioners Court for approval.

Finally, the FY 2021 Adopted Budget included a variety of earmarks that could materialize later in this fiscal year. Some of these earmarks represent one-time expenditures; however, there are some earmarks that could materialize into ongoing commitments by the Commissioners Court that will need to be budgeted for FY 2022 and beyond.

## FIVE-YEAR FINANCIAL FORECAST

The annual five-year financial forecast for the County's operating budget provides the Commissioners Court the opportunity to place the upcoming budget process within a greater financial context. Constructing the annual budget process within a longer financial horizon allows for improved financial planning. The following five-year financial forecast is based on past budget and tax base growth, and tax rate trends. The assumptions underlying the projections were prepared in consultation with the Travis Central Appraisal District (TCAD) and the County Auditor's

Office. Forecast estimates reflect conservative growth assumptions based on current information and are intended to deliver a macro level perspective. Information specific to the upcoming fiscal year will be refined as the FY 2022 budget process unfolds.

Over the last decade, Central Texas has seen strong growth, both in population and taxable value. This growth, coupled with a Consumer Price Index increase and other factors such as limited growth in salaries, changing demographics, and a lack of adequate funding for transportation infrastructure, education, and health care from the State, have placed greater pressures on the County's budget.

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#### PROPERTY TAXES, EXEMPTIONS AND HISTORICAL PROPERTY TAX RATES

County government is funded primarily by property taxes. The Travis County portion of the tax bill for a typical taxable homestead is approximately 15 percent of the overlapping total tax bill based on the FY 2021 Adopted Tax Rates for Travis County, Austin ISD, Austin Community College, Central Heath, and the City of Austin. Along with the tax rate set by local taxing jurisdictions and property values appraised at market value by TCAD, exemptions are an important component of calculating the annual tax liability for a property. Texas law allows a variety of partial or complete exemptions from local property taxes. Exemptions lower the taxable value of a property and its associated tax liability. A partial exemption removes a percentage or fixed dollar amount of the property's value from taxation. An absolute or total exemption excludes the entire property from taxation. In most circumstances, exemptions require applications, which can be filed with TCAD. The general deadline for filing an exemption application is April 30. Specific information and exemption applications can be found at <https://www.traviscad.org/form-finder/>.

The Commissioners Court has offered the maximum allowed Homestead Exemption of 20 percent to eligible Travis County households for decades. In addition, Travis County offers an optional 65 and Older/Disabled Homestead Exemption of \$85,500 for eligible homesteads. The impact of COVID-19 on commercial properties will likely result in lower values for this portion of the tax base. It also appears that residential property values have continued to increase since last year. Based on initial discussions with the Travis Central Appraisal District (TCAD), the overall taxable value used to calculate the FY 2022 tax rate and property taxes will likely decrease for the first time since FY 2011. While the certified estimate will not be available until July 25, 2021, it appears that commercial properties will lose value from the impact of COVID-19. In addition, February winter storms could impact taxable values since there is a provision in the Property Tax Code that could provide a temporary exemption to properties with at least 15 percent damage. However, submission deadlines associated with this temporary exemption are not until May 28 and therefore, any financial impact from reductions to taxable values will not be fully known until later in the budget process. These changes along with other market conditions will likely shift the tax burden from commercial property owners to residential property owners and could result in a higher property tax increase for the average taxable homestead than the typical increase experienced in the past.

In past years, Travis County has carefully considered exemptions and has historically tried to increase the 65 and Older/Disabled exemption when it was able to do so. For FY 2022, PBO will work to analyze the potential impact to an increase to this exemption and bring back a recommendation by June 30 for consideration.

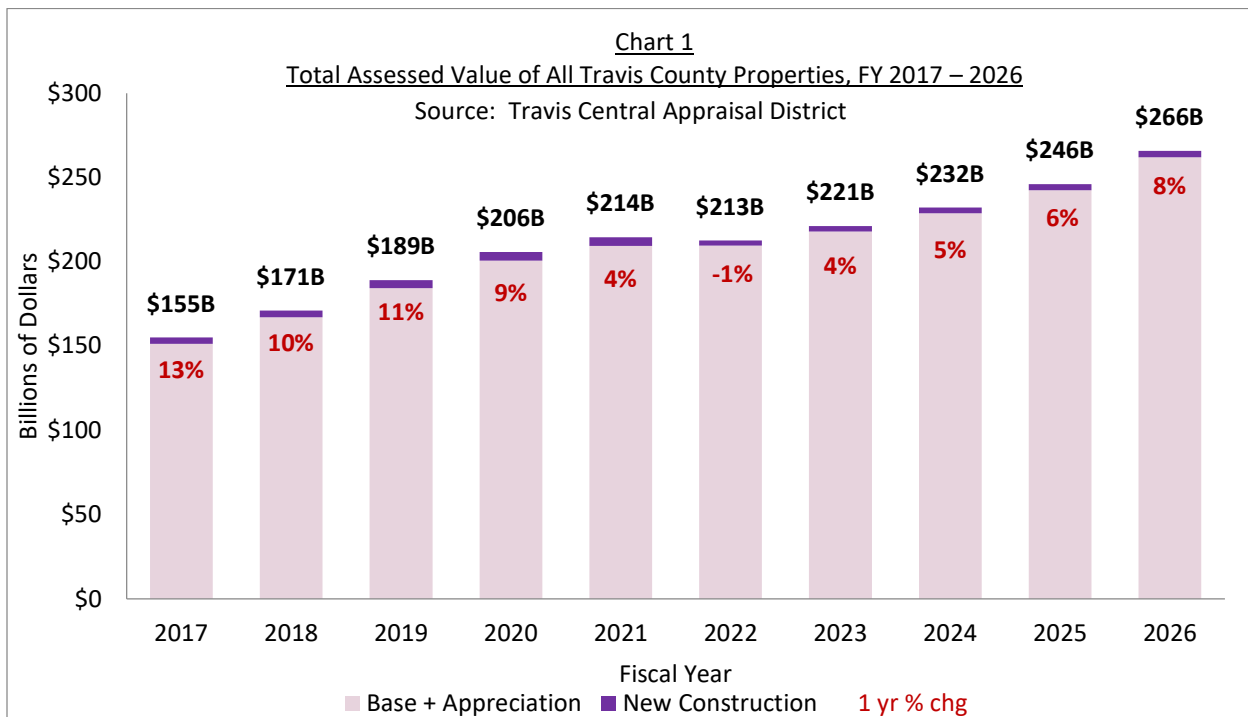
A summary of major exemptions for FY 2021 offered by Travis County, Central Health, City of Austin, Austin ISD, and Austin Community College is shown below.

**Table 8**  
**FY 2021 Homestead and Other Exemptions by Jurisdiction**

<i>Jurisdiction</i>	<i>Homestead Exemption</i>	<i>65 and Older Exemption</i>	<i>Disability Homestead Exemption</i>
Travis County	20%	\$85,500	\$85,500
	with minimum of \$5,000		
Central Health	20%	\$85,500	\$85,500
	with minimum of \$5,000		
City of Austin	10%	\$88,000	\$88,000
	with minimum of \$5,000		
Austin ISD*	\$25,000	\$35,000	\$25,000
Austin Community College	1%	\$164,000	\$164,000
	with minimum of \$5,000		

\*State law also automatically sets a tax ceiling that limits school property taxes to the amount the owner paid in the year they first qualified for the 65 and Older or Disabled Exemption.

The total taxable value for all Travis County properties increased from \$205.7 billion in the FY 2020 Adopted Budget to \$214.4 billion for the FY 2021 Adopted Budget (based on the certified values as of January 1, 2020), representing an increase of 4.2 percent. The certified value for FY 2021 included new property value of \$5.1 billion, which was essentially the same as in FY 2020 but still record breaking. The chart below highlights property tax base growth over the last five years and estimates conservative growth over the next five years, including the likely reduction to taxable values in 2022 (based on values as of January 1, 2021).



As noted above, the five-year financial forecast modeling scenarios include assumptions about the value of properties to be certified as of January 1, 2021, that will be used to prepare the FY 2022 budget. The Chief Appraiser will provide a certified estimate of this information in July. The “year one” assumptions serve as the baseline for the estimated net taxable value for the five-year planning horizon. These preliminary estimates will change as new information becomes available. The table below outlines the major assumptions PBO used for the estimated tax rate and corresponding revenue at this early stage of process.

Table 9  
Travis County Tax Base Assumptions

<i>Fiscal Year</i>	<i>New Construction Value</i>	<i>Net Taxable Value (NTV)</i>	<i>Total NTV Growth</i>
FY 2021 Certified Estimate	\$5.1 billion	\$214.4 billion	4.2%
FY 2022 Projected	\$3.0 billion	\$212.5 billion	-1.0%
FY 2023 Projected	\$3.2 billion	\$221.0 billion	4.0%
FY 2024 Projected	\$3.4 billion	\$232.1 billion	5.0%
FY 2025 Projected	\$3.6 billion	\$246.0 billion	6.0%
FY 2026 Projected	\$3.8 billion	\$265.7 billion	8.0%

New construction was a record high of \$5.1 billion for FY 2021 and has averaged \$4.6 billion over the last five years. This model uses a very prudent \$3.0 billion at this early stage of the budget process. Underlying assumptions will continue to be refined as we move closer toward the receipt of the January 1, 2021, certified estimate of the tax base that is scheduled to be received by July 25, 2021 and will be used in the final calculations of tax rates for the FY 2022 budget process.

Texas Counties relies on property taxes to fund the maintenance and operations of county services and program, which are primarily mandated by the state. Travis County property tax rates have averaged 3.84 percent above the No New Revenue M&O rate for the past 30 years. The rate over the past ten years has been slightly higher at 3.92 percent above the No New Revenue M&O rate. Both historical averages were less than half of the previously allowed 8 percent “rollback” tax rate.

SB 2 does not allow Commissioners to adopt a tax rate higher than 3.5 percent above the No New Revenue Maintenance and Operations (M&O) rate plus required debt service without voter approval unless special provisions from a declared disaster are in place. This combined rate is now referred to as the Voter Approval Rate. Forecast models continue to project resource limitations at the Voter Approval Rate.

Travis County continues to transition to more performance-based budgeting practices by strategically adding resources to programs willing to participate in an intense program review process at the conclusion of a pre-determined program pilot period. This approach, along with a focus on affordability, will force the budget to conform to a slower base budget growth rate in the future compared to recent years.

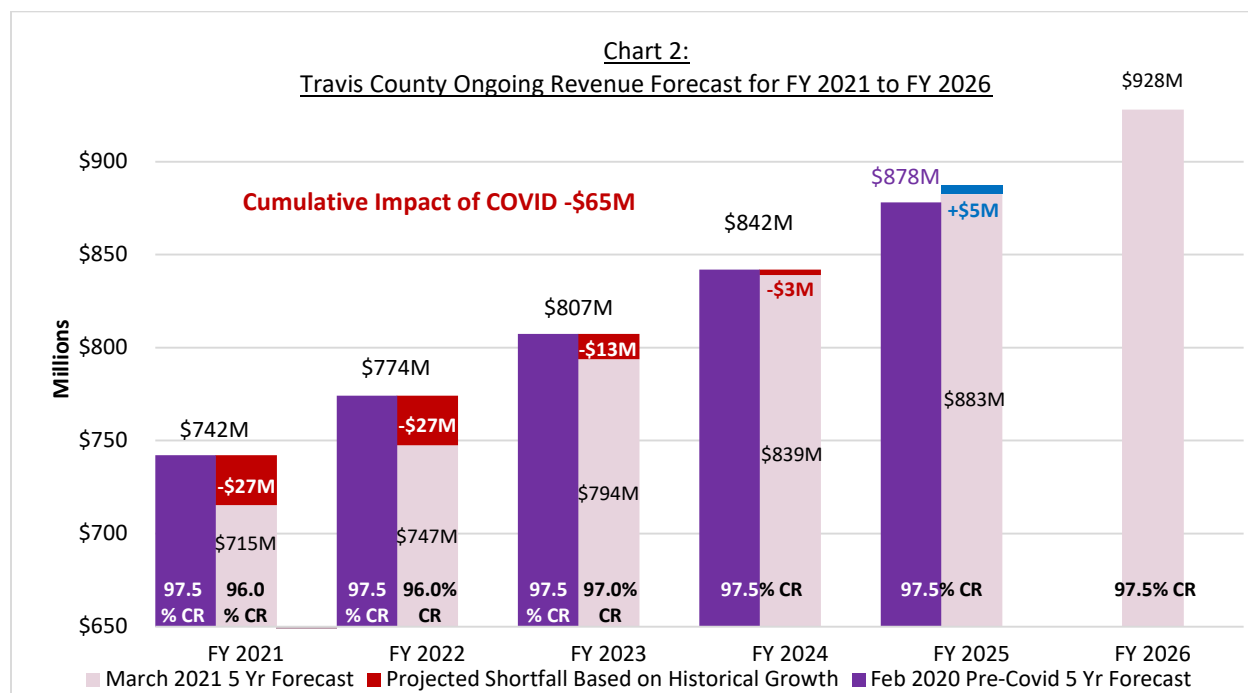
Budget growth at Travis County has been driven by a variety of factors rather than a single issue. Last year, our prior 10-year CAGR for base budgets was 5.5 percent per year looking back from FY 2010 to FY 2020. The updated historical growth rate from FY 2011 to FY 2021 is 5.3 percent and reflects a concerted effort to grow at a lower rate.

For FY 2021, departmental base budgets grew 4.5 percent, which was below the prior 10-year average. Further, the annual ongoing revenue growth for FY 2021 was half of one percent (0.5%) due to COVID-19. This was the smallest annual increase in over 30 years and equated to a modest overall increase of a mere \$3,890,702.

Continued growth at less than one percent, like the dramatically slow rate that occurred in FY 2021, is not sustainable without significant cuts to service levels. Nevertheless, it is anticipated that the revenue lost due to COVID-19 will return to pre-COVID-19 levels in future years. These non-property tax revenue categories include mixed beverage tax, park entrance fees, court filing fees and interest earnings as examples. In addition, it should be noted that the collection rate (determined by the County Auditor) for FY 2021 was reduced from 97.5 percent to 96.0 percent based on possible disruptions associated with COVID-19. This collection rate resulted in 96.0 cents being budgeted for each dollar of property taxes rather than 97.5 cents.

Given the uncertainty of current year collections and potential current year refunds, a 96.0 percent collection rate assumed in the Budget Guidelines for FY 2022. The forecast assumes a recovery in the collection rate over time, with the rate increasing to 97.0 percent for FY 2023 and returning to 97.5 percent by FY 2024. The County Auditor will make a final determination on the collection rate that will be used in the forthcoming revenue estimates for FY 2022 based on the most current collection rate data available

Current forecast estimates project a loss of at least \$70 million in General Fund revenue from FY 2021 to FY 2024 due to the COVID-19 pandemic. The County first slightly exceeds the original pre-COVID-19 estimate in FY 2025 once non-property tax revenue is projected to return to prior levels resulting in at a net projected loss of at least \$65 million from FY 2021 to FY 2025. This does not include losses in FY 2020 when the pandemic first began or losses to the County's special revenue funds.



Even with these challenges, the forecast model assumes use of the Voter Approval Rate during the forecast period with adopted budgets balancing ongoing expenses against ongoing revenue and one-time expenses against one-time revenue. Annual budget preparation will not only focus on immediate needs but will also be mindful of future



funding challenges given that the County has less flexibility to adjust the property tax rate above 3.5 percent to quickly respond to changing conditions or needs.

## BUDGET PREPARATION GUIDANCE FOR COUNTY OFFICES AND DEPARTMENTS

The key elements of the budget guidelines as outlined below are intended to help offices and departments in the preparation of FY 2022 budget submissions, and to assist PBO in preparations for the upcoming budget cycle.

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### TARGET BUDGETS

Offices and departments are required to submit their budgets at the FY 2022 Target Budget Level. This Target Budget Level represents the FY 2021 Adopted Budget plus the annualized impact of any new increases approved during FY 2021, less any one-time expenses and other reductions related to pilot programs and programs that have been moved from ongoing to one-time, plus any needed corrections.

Offices and departments are provided a great degree of flexibility within their target budgets and are urged to collaborate with PBO to identify and implement any opportunities for savings and efficiencies. As stated previously, revenue cap legislation and the fiscal impact of COVID-19 will impact future budgetary flexibility and PBO will continue partnered review of departmental budgets in the FY 2022 budget process and as well as future budget processes.

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### MAINTAINING CURRENT SERVICE LEVELS

Target budgets provide offices and departments the flexibility to repurpose funds within their budgets to accomplish their highest priority goals. Executives and managers are expected to reprioritize within existing resources to maintain current service levels where required. Executives and managers are urged to focus on efficiencies, increased productivity, and simplification rather than on budget requests for additional resources.

New FTEs in the Preliminary Budget, other than those related to the budget drivers discussed earlier in this document, will be limited to those that are (1) internally funded on a permanent basis for existing program needs, (2) supported by new revenue sources that have a proven track record and have been reviewed by the Auditor's Office (and include the departmental indirect cost rate above direct costs to account for administrative support, space, and associated infrastructure costs), or (3) based on an extraordinary and compelling need. If sufficient County-owned or leased space cannot be identified and costs estimated for a proposed program or FTE increase, then PBO will not recommend such a program or FTE increase in the Preliminary Budget. The County is still assessing the implication of target goals for teleworking for applicable staff. Even if space is available, new FTEs in the FY 2022 Preliminary Budget are expected to be very limited.

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### NON-COUNTY REQUESTS

As in prior years, non-county entities that plan to request new or additional funding in the County budget must coordinate such a request through the County department in charge of delivering the service. The request must be submitted to the relevant County department no later than **April 12, 2021** so that it can be included in the department's overall budget submission.

Third party social service providers in the Human Services and Justice Planning issue areas are expected to work through the competitive solicitation process coordinated by the Travis County Purchasing Office.

County offices and departments are asked to advise their key stakeholders of the County's budget process, schedule, and budget guidelines that provide the context for FY 2022 appropriations. Non-county organizations submitting a

request through the appropriate County office or department will be included in their submission; however, due to newly imposed revenue caps, will not be considered by PBO for the FY 2022 Preliminary Budget.

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#### UNSPENT BALANCES, ZERO-BASED LINE ITEMS, VACANCIES, AND SALARY SAVINGS

PBO annually reviews the last three years of unspent operating funds and considers whether it would be reasonable to reduce the budget without substantially affecting mandated service levels. The primary purpose of this review is to identify opportunities for repurposing these unspent funds.

Offices and departments will be asked to build selected line-item budgets from the ground up (“zero-based” budgeting), such as leases, maintenance contracts, other purchased services, consulting, and contributions to grants. Other commitment items such as travel and training may become subject to zero-based budgeting during budget development.

Each year, PBO reviews vacancy trends in all offices and departments. Based on these reviews, PBO may recommend appropriate adjustments to budgeted departmental salary savings. In addition, PBO reviews all positions that have been vacant for 120 days or more. Offices and departments with such vacancies are required to document the reason for the long-term vacancy as part of their budget submission.

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#### SPECIAL ONE-TIME FUNDING FOR SELECT NEW PROGRAMS

The Commissioners Court continues its support of innovative programs that can provide improved services, streamline business practices, and reduce costs. It is possible that a very limited amount of one-time resources will be available to support such innovative programs. It is likely that any funding recommendations will be geared towards reducing jail detention populations and maintaining current state and federally funded programs that are shown to be meeting or exceeding performance metrics. Offices and departments must document in the budget request how the following criteria are met:

- The program addresses a critical, core Travis County issue that:
  - is not otherwise being addressed; or
  - is being addressed but is not realizing the desired results.
- A new program that has potential to duplicate or overlap with an existing program is clearly identified, and protocols that will isolate the impact of each program on performance outcomes are described.
- Commitment to include PBO Analyst in the implementation process throughout the pilot period (FY 2022, FY 2023, and FY 2024).
- Programmatic performance measures for innovative programs directly relate to the established departmental mission statement, goals, objectives, and performance measures.
- Performance measures have at least one outcome measure and focus on input, efficiency, and output measures.
- Performance measures are meaningful, valid, and can be independently verified.
- Commitment to take performance management training in consultation with PBO.
- Willingness to provide periodic status updates to PBO during the pilot period to refine goals and objectives and measures progress.
- Willingness to use special project workers if new staff is needed.
- A process is established for the periodic reporting of results that are connected to the County’s mission, vision, and goals.

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## NON-PROPERTY TAX REVENUE

The importance of non-property tax revenue has increased, given the revenue caps proposed by the state legislature and budgetary impact of COVID-19. These non-property tax revenue sources comprise approximately 10.0 percent of the County's ongoing revenue. The majority of these revenue sources are fees within the justice system, which are set by statute. However, there is a smaller portion of fees that are set by the County. The budget process provides an opportunity for a review of County fees to evaluate the appropriate level of cost for each service.

As part of the FY 2021 budget process, PBO worked with the Auditor's Office and various County offices and departments to compile an overview of fees charged for services and facility use countywide. In addition, a new budget rule was added which requires departments to show what the necessary rate in a contract would need to be to ensure full cost recovery, to help Commissioners Court make an informed decision about whether to subsidize the cost to provide the service.

During the FY 2022 budget process, PBO is working towards creating a central inventory of the fees and revenue contracts held at the department level. Some fees have not been adjusted in recent years to keep pace with the costs of providing the service, along with other considerations such as inflation or maintenance costs.

It is worth noting that due to the technical nature of some fees, such as those in the Medical Examiner's Office, PBO may require assistance from a third-party consultant with subject matter expertise in these areas to assist in updating the fee schedule to reflect full cost recovery.

Through the rest of the FY 2022 budget process, PBO intends to continue a comprehensive review of fees, to begin looking at whether the current fees support the actual cost or a portion of the cost to the County of providing the services, and which have the potential to be increased.

For each fee or contract, offices and departments will be asked to report the following information:

- Whether the department intends to increase the fee or contract as part of the FY 2022 budget process along justification, including estimated cost recovery, for any increase;
- If the fee or contract is to be increased, the proposed increase amount;
- How often the fee rate should be reviewed by County staff to ensure full cost recovery; and
- The state statute or other legal framework which establishes the fee and its rate.

The requested revenue information should be completed and returned as part of the budget submission. As part of the FY 2022 Preliminary Budget, PBO will bring forward a list of proposed fee adjustments for Commissioners Court and the public to review and provide feedback. A comprehensive fee adjustment item will be presented to Commissioners Court in early September for approval as part of the FY 2022 Adopted Budget. Given the implications of SB 2 and COVID-19 on local jurisdictions, the Commissioners Court limited the annual growth in contracts with these entities to no more than 15 percent as these contracts reach full cost recovery. PBO recommends the same approach for FY 2022, limiting an increase to no more than 15 percent, as applicable. Any new revenue generating contract should continue to be based on full cost recovery.

## CALENDAR

The key dates below are subject to change based on the receipt certified values by TCAD and related statute requirements. SB 2 includes a variety of changes that have been reviewed by PBO and the County Attorney's Office. The calendar below assumes that Travis County will not consider a rate above the voter approval rate of 3.5 percent

above the County's No New Revenue Maintenance and Operations Tax Rate. If the Court were to wish to have a tax election, the last day to vote on the tax rate and to call the election is Tuesday, August 17, 2021.

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#### KEY DATES FOR DEPARTMENTS AND OFFICES

Offices and departments are expected to submit their FY 2022 budget submissions by **Monday, April 26, 2021**. As stated above, this calendar assumes that an election for a tax rate above the voter approval tax rate will not be called for November 2, 2021.

Table 10  
FY 2022 Budget Calendar

Date	Event
March 31	Budget Kick Off Meeting at 10:00 A.M
April 26	Budgets Due to PBO by 5:00 P.M.
April – June	PBO review of County Budget Submissions
May 27	Employee Public Hearing (time TBD)
June	Departmental Meetings with PBO
Week of July 26	Preliminary Budget Published
August 18-23	Potential Select Budget Hearings (If Requested by Commissioners Court)
September 2 and 3 (if needed)	Budget Mark-Up
September 21	FY 2022 Tax Rate Adopted
September 28	FY 2022 Budget Adopted

**Approved by Commissioners Court on March 23, 2021.**